MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016 / 2017 SESSION

DEC5018 – MICROECONOMICS

(Diploma Students Only)

24th FEBRUARY 2017
3.00 p.m. – 5.00 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 9 pages with 3 sections.
2. Answers for section A and B should be shaded on the OMR sheet provided.
3. For section C, please write your answers in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1.5 marks). Answers for this section should be shaded on the OMR form.

1. Income earned by the owners of land is classified as _____ payments.
   A. economic profits
   B. interests
   C. rents
   D. dividend

2. The term "*ceteris paribus*" represents the meaning of _____.
   A. incentives
   B. choices
   C. scarcity
   D. others things remained unchanged

3. Which of the following is **NOT** one of the group of resources?
   A. Labor
   B. Land
   C. Government
   D. Capital

4. _____ is the study of choices that individuals and businesses make, the way those choices interact in markets, and the influence of governments.
   A. Economics
   B. Microeconomics
   C. Macroeconomics
   D. General economics

Table 1: PPF for Zul Manufacturing

Point	Production of Cheese (packs)	Production of Yogurt (boxes)
A	0	1,000
B	250	900
C	500	700
D	750	400
E	1,000	0

5. Table 1 shows the production possibilities frontier (PPF) of Zul Manufacturing. The opportunity cost of increasing cheese production from 500 packs of cheese to 750 packs of cheese is _____.
   A. 1.2 boxes of yogurt
   B. 8 boxes of yogurt
   C. 1.4 boxes of yogurt
   D. 12 boxes of yogurt

Continued...

6. We need to make choices because we are facing _____.
   A. incentives
   B. opportunity costs
   C. scarcity
   D. economics

7. Which of the following topic can be categorised as a scope of macroeconomics?
   A. Nestle Manufacturing promised to provide most affordable price to Malaysian consumers.
   B. Honda Malaysia announced that the local consumers prefer to purchase hybrid cars as compared to previous year.
   C. Malaysian Ringgit is continuing slides since four months ago.
   D. The increasing price of cooking oils had caused lesser demand of cooking oils.

8. Which of the following pair of goods are considered as complement goods?
   A. Printer and toner
   B. Pendrive and hard disk
   C. Smartphone and laptop
   D. Cappuccino and Latte

9. The combination of market economy and planned economy is called _____ economy.
   A. socialism
   B. command
   C. mixed
   D. centralised

10. A firm's production is _____ when the production point is inside its PPF.
    A. unattainable
    B. efficient
    C. inefficient
    D. shut down

11. In factor market, _____ supply factors of production to _____.
    A. households; firms
    B. firms; households
    C. government; firms
    D. households; government

Continued...

12. Which of the following can be best described as normative statement?
    A. Malaysian government had removed the cooking oils subsidies effective November 2016.
    B. Unemployment, inflation rate and exchange rate are the examples of macroeconomics.
    C. The price of RON97 is higher than RON95 in Malaysia.
    D. Malaysian government should reduce unemployment rate by hiring more foreign workers.

13. Smartphone producers are expecting decreasing prices for smartphone in near future, this can cause the _____.
    A. producers to manufacture lesser smartphones now
    B. producers to manufacture more smartphones now
    C. producers to stop manufacture smartphones now
    D. producers to shut down their business now

14. An inferior good is a good which demand _____ when income _____.
    A. increases; increases
    B. increases; remained unchanged
    C. decreases; increases
    D. decreases; decreases

15. The "law of supply" states that, other things remaining the same, firms produce _____ of a good at _____ of its price.
    A. more; higher
    B. more; lower
    C. lesser; higher
    D. lesser; constant

16. Which of the following shifts the supply curve rightward?
    A. An increase in the population.
    B. A positive change in preferences for the good.
    C. A decrease in the price of the good.
    D. A decrease in the price of a factor of production used to produce the good.

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Table 2: Demand and Supply Schedules for Chocolate Chip Cookies

Price (RM per kg)	Quantity supplied (kg)	Quantity demanded (kg)
3	1	7
4	2	5
5	4	4
6	5	2
7	6	1

17. Table 2 shows the demand schedule and supply schedule for chocolate chip cookies. What is the equilibrium quantity and equilibrium price for chocolate chip cookies?
    A. 7 kg, RM 3.00 per kg
    B. 2 kg, RM 3.00 per kg
    C. 2 kg, RM 6.00 per kg
    D. 4 kg, RM 5.00 per kg

18. The supply of a good increases if the price of a substitute in production _____.
    A. increase
    B. decrease
    C. constant
    D. is volatile

19. When price is _____ the equilibrium price, a _____ occurs.
    A. above; surplus
    B. below; surplus
    C. above; shortage
    D. at; shortage

20. When supply decreases and demand does not change, the equilibrium quantity _____ and equilibrium price _____.
    A. decreases; increases
    B. decreases; decreases
    C. increases; increases
    D. increases; decreases

21. Shimah loves chocolate muffin. As the price of a chocolate muffin increases from RM 1 to RM 3 per piece, Shimah continues to buy 12 pieces of chocolate muffin every week. Shimah's demand for chocolate muffins is _____.
    A. elastic
    B. unit elastic
    C. perfectly inelastic
    D. perfectly elastic

Continued...

22. If a 5% increase in price of apple causes a 10% increase in the quantity supplied, supply is _____.
    A. elastic
    B. inelastic
    C. perfectly inelastic
    D. unit elastic

23. Supply tends to be _____ elastic during _____.
    A. less; long run
    B. more; long run
    C. most; short run
    D. more; short run

24. The _____ it is to substitute among the resources used to produce a good or service, _____.
    A. easier; the greater is its elasticity of supply
    B. easier; the smaller is its elasticity of supply
    C. more difficult; the greater is its elasticity of supply
    D. easier; the supply will be perfectly inelastic.

25. When income increases by 10%, the quantity demanded of fast foods will increase by 16.1%. Therefore, the income elasticity of demand for fast foods is _____.
    A. 1.8
    B. 1.61
    C. 2.54
    D. 0.78

26. If a firm has no ability to decide on the price of its product, it _____.
    A. cannot maximise profit
    B. is a monopolistically competitive firm
    C. faces a horizontal individual demand curve
    D. is a price taker

27. In perfect competitive market, each firm's output is a _____ for the output of the other firms, so the demand for each firm's output is _____.
    A. perfect complement; perfectly inelastic
    B. perfect complement; perfectly elastic
    C. perfect substitute; perfectly elastic
    D. perfect substitute; perfectly inelastic

Continued...

28. Monopolistic competition firms practices _____ by competing in quality, price and marketing.
    A. economies of scale
    B. product differentiation
    C. market efficiency
    D. profit maximising

29. A firm cannot practice price discrimination if it _____.
    A. operates at P < MC
    B. faces a downward sloping demand curve
    C. is regulated by the government
    D. operates in perfect competitive market

30. _____ consists of the tools, instruments, machines, buildings, and other constructions that have been produced in the past and that businesses now use to produce goods and services.
    A. Capital
    B. Land
    C. Labor
    D. Entreprenuership

[TOTAL 45 MARKS]

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SECTION B: TRUE/FALSE QUESTIONS (each question consists of 1 mark).
Answers for this section should be shaded on the OMR form.
Mark "A" for the TRUE statement and "B" for the FALSE statement.

31. Consumption choices refer to all the things that we cannot afford.

32. For consumers, a budget line represents the limitation of their consumption choices.

33. An indifference curve is a graph that shows combinations of two goods that give consumer an equal amount of satisfaction.

34. Consumer best affordable choice is under budget line and on the lowest attainable indifference curve.

35. A preference map shows a series of indifference curves.

36. "How to market and price its products" is one of the basic decisions that firms must make in order to maximise profits.

37. The long run is a period of time in which the quantity of all inputs can be changed.

38. Economic efficiency occurs when the firm produces a given quantity of output at the highest cost.

39. Accounting profit is the difference between total revenue and explicit cost.

40. Lokman started his nasi lemak business last month. He had sold 12,000 plates of nasi lemak with the price of RM4 for each plate. The total explicit cost incurred was RM20,000 and implicit cost was RM14,000. Lukman' economic profit was RM10,000.

41. Average total costs will always be at a constant level regardless of the amount of firms' output.

42. Fixed costs are incurred even when a firm's production is temporarily shut down.

43. Firms' profits are limited by three features of the environment which are technology constraints, information constraints and labor constraints.

44. Airline companies that offer different prices for different age category of customers is an example of third degree price discrimination.

45. One of the conditions for successful price discrimination is seller must be a price taker.

[TOTAL 15 MARKS]

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SECTION C: STRUCTURED QUESTIONS

Answer ALL questions. Answers should be written on the answer booklet provided.

QUESTION 1

a) Mr Jim owned a smartwatch company in Melaka. He would like to know how would the following events influence the demand of smartwatches. Explain how would the following events influence the demand of smartwatches in Melaka market. ***Note: You are required to illustrate your answer with a graph for each event.***

i. The price of smartwatch becomes lower due to a promotion offered by the company. (2.5 marks)

ii. It is expected that the number of smartwatch producers will be increased by next three months. (2.5 marks)

iii. The income of Melaka consumers reduced and smartwatch is a normal good in Melaka market. (2.5 marks)

iv. The prices of smartwatch are expected to be increased by 5% next month. (2.5 marks)

b) The drastic increase of cooking oils price had caused the increase in the price of economy rice. The restaurants realised that the increased price of economy rice by 10 percent had caused the quantity demanded of economy rice decreased by 5 percent.

i. Calculate the price elasticity of demand for economy rice. (3 marks)

ii. Based on the answer in (i), is the demand for economy rice elastic or inelastic? Justify your answer. (2 marks)

Continued...

QUESTION 2

Exhibit 1 shows Edmand's utility schedules from consuming pens and pencils. The prices of pens and pencils are the same, i.e. RM0.50 each.

Exhibit 1: Utility Schedules for Edmand

Pens				Pencils			
Quantity	**Total Utility**	**Marginal Utility**	**MU/P**	**Quantity**	**Total Utility**	**Marginal Utility**	**MU/P**
0	0	-	-	0	0	-	-
1		90		1		70	
2		65		2		50	
3		45		3		30	
4		25		4		15	
5		15		5		9	

Based on **Exhibit 1,**

a) Calculate the total utility for pens and pencils. (5 marks)

b) Calculate the marginal utility per price ratio for pens and pencils. (5 marks)

Note: Please copy Exhibit 1 into your answer booklet to answer a) and b)

c) Assuming that Edmand has RM4.50 to spend on pens and pencils, what is the combination of pens and pencils should Edmand consume in order to maximise his satisfaction? Justify your answer. (3 marks)

d) Define utility. (2 marks)

QUESTION 3

Identify and explain **four (4)** types of market structure by providing an example for each type of market structure. (10 marks)

[TOTAL 40 MARKS]

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